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SIPDIS

STATE FOR AF/S, AF/EPS, AND EB/IFD/ODF

STATE PASS TO USAID FOR PPC/SBRENT, AFR/DP/WWARREN,
AFR/SA/DMEDELSON

STATE PASS TO USAID FOR PPC/SBRENT

E.O. 12958: N/A

TAGS: [EAID](#) [KMCA](#) [ECON](#) [MZ](#) [MCC](#)

SUBJECT: BUDGET SUPPORT DONORS OBJECT TO DEDICATED MCC
UNIT IN PLANNING MINISTRY

1. (U) On June 30, the Dutch Ambassador and the Finnish Charge, the incoming and outgoing heads of the Group of 17 donors who provide budget support to the Mozambican government (GRM), called on Charge to deliver a letter expressing concern over the GRM's decision to set up a unit in the Planning Ministry to work with the Millennium Challenge Corporation (MCC). They stated that the establishment of the unit, by taking qualified staff from other duties, will damage the quality of the GRM's upcoming Poverty Reduction Strategy, upon which much of Mozambique's external financing is based. They also indicated that establishment of a specific project unit went against the principles of the 2005 Paris Declaration on Aid Effectiveness, signed by the USG and other governments. The letter asks that the MCC review the establishment of the unit along with the GRM and adopt a different approach. Text of the letter follows in para 4.

2. (U) Charge explained the importance to the USG of a successful Mozambican compact with the MCC and noted our belief that the GRM's establishment of the unit will help move forward Mozambique's MCA proposal. Charge agreed to convey the letter to Washington agencies as requested.

3. (U) Action Request: We understand that MCC officials are planning to discuss this issue in a video conference with G-17 members next week. Post asks that after the conference, Washington agencies evaluate the need for a response to the letter and provide one if necessary. End Action Request.

4. (U) Begin text of letter:

Paris Declaration Observance by the MCA in Mozambique
Excellency,
We have been observing with interest the approach of the Millennium Challenge Account to Mozambique over the last two years. As you know, the country receives a large amount of foreign aid every year. This year about 900 million USD have been pledged, that is approximately 50 USD per capita or nearly a fifth of per capita income. A large proportion of this, possibly over 300 million USD, is provided by our group of 17 donors (G17-Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, World Bank), including 15 bilaterals, the World Bank and the European Commission, in the form of direct budget support oriented towards the country's Poverty Reduction Strategy (in its local abbreviation, the PARPA). We may add that USAID is a constant official observer to the activities of G17. The G17 is doing its best to implement the principles, subscribed to by most of the international donor and financiers of the world, including the USA, which are contained in the Declaration of Paris signed on 3rd March this year. We seek to increase harmonisation and alignment, not for our own sakes but for the sake of Mozambique. We can already see that the close collaboration on aid delivery and administration by G17 is reducing transaction costs substantially, giving Government more time to think and plan strategically, is increasing transparency substantially and helping to accelerate the introduction of better systems of financial management.
We G17 have of course no mandate from the Government of Mozambique to push other donors into line against their will. Nor have we any ambition to exclude non-aligned donors from Mozambique, and indeed we can only be pleased when the country achieves recognition and support by other donors. We would however like to address our strong concerns to you and ask you to forward our concerns to the MCA, as regards one of its latest demands on the Government of Mozambique. Mozambique is known, due to its very undercapitalised colonial history and its history of armed conflict then and thereafter, to be one of the poorest, least developed countries in the world, and not least, one of the countries most thinly provided with qualified human resources.
We understand that the MCA has not been satisfied with

Mozambique's efforts to develop a full and complete portfolio of activities for its financing. This has resulted in pressure being placed on the Government to set up a special unit in the Ministry of Planning and Development, to take care full-time over the coming six to ten months of MCA's needs and demands. We understand also that the MCA will finance the costs of this unit.

The Government has responded by appointing four of its qualified public servants to this unit, including some who were seminal in the elaboration of the country's first PRS and its follow-up, and who should be performing the same function in relation to the second-generation PRS, to be elaborated during the coming six to ten months. The others could also be performing more priority and more productive functions of Government. Putting them in this unit cannot be other than a direct blow to the quality of the PRS (PARPA), on which much of the country's external financing is based, and even to other important aspects of the Government's priority work.

Excellency

In the view of G17, we consider that the support of the MCA should be handled by and within the normal channels of Government instead, and in harmonisation and collaboration with the other donors. Project Implementation Units set up for individual donors' purposes go directly against these principles. We would thus like to appeal to the MCA to review this step, in consultation with Mozambique, and to adopt a more sensitive and aligned approach to assisting the country to develop and reduce its poverty levels. We would be very grateful if you could convey these sentiments, offered in a strongly constructive spirit, to the MCA and any other relevant organizations affected.

Yours very sincerely,

(signed)

Liki Remmelzwall

Ambassador, the Netherlands

Anton Johnston

Charge Sweden

Members of the G17 troika

For and on behalf of the G17 donors

End text.

JDUDLEY